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SUBJECT: BRAZIL'S QUARTERLY ENVIRONMENTAL UPDATE

1. Summary: The following is a summary of events relating to the Brazilian environmental situation from January to March, 2005. End Summary

Transposing the Sao Francisco River

2. Transposing the waters of the Sao Francisco River, also known as the Old Chico, and diverting them to the semi-arid, drought prone regions of the NE is a promise that dates back to the times of the Emperor Pedro II. Now, in the waning days of President Lula's first term, this grand undertaking looks to come to fruition. In the wake of the project are social tensions and looming questions about the environmental sustainability of the project. This was more than evident in the end of January when Ibama (Brazil's Environmental Enforcement Agency) tried to hold a series of eight town-hall style meetings, one for each state involved in the transposition. Of these, only four were realized, while the others were cancelled as a result of protests by NGOs, environmental groups and disaffected citizens.

3. The project proposes two canals, connecting the Sao Francisco River Basin to various watersheds, one to the East taking water to Pernambuco and Paraiba, and the other to the North towards Ceara and Rio Grande de Norte.

4. From the environmental perspective, the primary question is whether or not the Old Chico has the flow capacity to support the NE states while maintaining its own downstream tributaries and the populations who have been the traditional recipients of the river's water supply. The project will divert 26 cubic meters of water per second, which the government posits will cause little damage to the river. Critics claim that the project will dry out the River's dwindling reserves. Other contentious factors involve the risk to the flora and fauna of the riparian ecosystem, the potential harm to energy generation at downriver hydroelectric sites and, in the four states receiving water, the question of who will actually receive the diverted water. Current estimates portend that the new water supplies will reach 45 percent of the population while detractors assert that the majority will be used in agricultural projects by the landed elite.

5. While the project was debated for many years, it was finally approved, via environmental licensing by Ibama, in February. Work is set to begin in May 2005. To this end, the GOB has allotted USDOL 600 million for the project this year in addition to preliminarily budget appropriations for 2006 and 2007, in order to cover the expected USDOL 4.5 billion price-tag.

Satellites Monitor the Paraiba do Sul

6. Brazil is continuing its trend of using high-tech satellite systems to perform up to the minute environmental monitoring. On March 29, INPE (the National Institute for Space Research) launched the first of seven monitoring platforms planned to monitor the River Paraiba do Sul. The other six are expected to be operational by the end of this year.

7. The sensors will monitor chemical and organic pollutants in the river, oxygen content, flow, acidity, temperature, salinity, and water levels in addition to indicating rain volumes, the potential for flooding and extreme cases of clandestine dumping. Until now, the river was tested and monitored twice annually. The new system will allow for updates every three hours, by routing information through SCD satellites as well as the China-Brazil satellite CBERS. The information will then be routed to INPE bases where it will be analyzed and made available for the public via the internet.

New Water Tax

8. In commemoration of world water week, Brazil has launched

a number of measures aimed at improving environmental sanitation and improved water resource management. Starting on March 21, 2005 the National Water Resource Council (CNRH), an organ linked to the Ministry of Environment (MMA) approved a resolution allowing for the collection of a tax for the use of water. At present Brazil's water system is governed by 100 committees who oversee regional hydrographic basins. Each committee will be responsible for setting up a system of tariffs whereby all sectors of society from industrial to private will pay a tax for using water. The revenues produced will be reinvested into infrastructure and environmental sanitation as well as water treatment, solid waste management, garbage and street cleaning.

----- Nuclear Fuel -----

19. On January 25, Brazil tested a new nuclear fuel, 16 NGF (New Generation Fuel), in its Kori II reactor. It was the first test of the 16 NGF, produced by a partnership between Brazilian scientists, Westinghouse and South Korean KNFC. According to media reports, the new fuel should provide a 10 percent increase in production potential, capable of supplying a 200,000 person city with energy. Moreover, it should require significantly less raw material. Authorities reportedly plan to begin using 16 NGF in Brazil's Angra I reactor in 2007, following a retrofit of the reactor's generators.

----- Animal Trafficking -----

10. A shipment of exotic indigenous artifacts, feathers from endangered birds and a variety of teeth from Brazilian animals was captured in Campo Grande on February 2nd. The value of the shipment was estimated at USDOL 600,000 and was destined for the United States where it was meant to be sold, via a criminal consortium, to collectors, millionaires and museums interested in Brazilian art. The shipment originated in the Amazon and came by river, jumping along a route of indigenous villages. It was the largest ever shipment apprehended by Brazilian authorities.

----- The Atlantic Rainforest -----

11. At one time, the Atlantic Rain Forest ran along the entire Brazilian coast, spanning 17 states and covering more than 1.3 million km². At present, only 7 percent of the forest still remains, concentrated more in the Southern Regions of the country, highly fragmented, highly fragile and very endangered. Often overshadowed by the immenseness and mystery associated with the Amazon Rain Forest, the Mata Atlantica, some say, is even richer in biodiversity. Accordingly, the Ministry of Environment announced on March 18, the transfer of resources for the creation of federal, state, municipal and private conservation units, the implantation of ecological corridors, reforestation research and the promotion of ecotourism in Sao Paulo's Ribeira Valley. The actual funding and resources will be allocated through the Ministry of Mines and Energy and the German Cooperation Bank (KfW), but will be administered by NGOs. These organizations can form partnerships with governments, research and institutional centers.

----- Biodiesel/Renewable Energy -----

12. In January the GOB adopted a national biodiesel initiative. The measure calls for a voluntary 2 percent biodiesel mixture through 2007. Starting in 2008 a two percent mixture will be mandatory until 2013 when a five percent mixture will become mandatory. In response to this measure, Brazil opened its first biodiesel factory in the Cassia, Minas Gerais on March 24. The factory, Soyminas, will have the capacity to produce 12 million liters of biodiesel per year. In addition to decreasing Brazil's dependence on foreign oil sources, biodiesel is an environmentally friendly alternative to conventional diesel and, according to the MCT, will decrease carbon monoxide emissions by up to 40 percent.

----- The Green Package -----

13. Over the past year the GOB has instituted a variety of measures to combat the surge of deforestation in the Amazon Basin. The most recent of these measures was introduced to Congress in March 2005 by order of a Presidential decree. Expectations are that the bill will be voted on by mid-year. The most important aspect of the legislation, would allow

the government to grant concessions in public forests, primarily in the Amazon region. Of the 75 percent of land considered public domain in the Amazon, about 45 percent remains unprotected. The government hopes that concession based management will discourage slash-and-burn activities and other destructive logging practices.

14. According to the bill, a region of public land would be divided into thirty small, medium and large concessions blocks. The government would then, based on land surveys, determine the most suitable form of sustainable forest management for the area. In the case of managed forestry, a concession grantee would be allowed to take five to six trees per hectare over a year followed by a thirty year moratorium on activities in the area. Other endeavors would include rubber tapping, fruit collection and wood-oil extraction. Further discouraging consolidation and land grabbing, no private-sector entity would be allowed to work more than one concession in a single region. When awarding the concessions, the government would take into account the environmental as well as the social impacts of the plans vying for the grants.

15. Among the proponents of the plan are the logging companies, many of whom have been forced to suspend their operations over the last few years as questions of the validity of land titles arose. The plan will allow managed logging companies a chance to get back into business. Among others, the bill also has the support of the PFCA (Group of Certified Amazon Forest Producers), an association of nine companies who practice managed forestry in accordance with international standards set by the FSC (Forest Stewardship Council). According to the president of the PFCA a concessions based system of management would also make logging more financially attractive because leasing land is cheaper than buying it. Revenues garnered through the leasing of lands would further support governmental conservation activities. The additional funds would actually be used to monitor and verify the systems of concessions.

16. The bill also has its detractors. Many are asking how this bill would be different from previous protective legislation. While the bill is good in theory it is extremely difficult to execute. According to Paulo Adario, Greenpeace Brazil's coordinator, "the government has a horrible track record of providing such safeguards, especially in the Amazon. The Ministry of Environment (MMA) Forest Coordinator, Tasso Azevedo, however, countered that enforcement would involve state as well as the Brazil's Environmental Enforcement Agency authorities and have access to greater financial resources as a result of concessions royalties.

17. Still others find fault with the bill for its potential effect on national sovereignty; always a sensitive issue with respect to the Amazon. Some believe that giving equal opportunity to international firms will favor the expansion of, for example, Asiatic logging companies into Brazil's Amazon territory. The counterargument is that even if international firms manage an area, they will not own it. Primary ownership will always remain with the GOB.

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